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New Savings Accounts: RSAs and LSAs

Two new savings accounts are likely to be the subject of much political conversation—if not legislation—in 2004: Retirement Savings Accounts (RSAs) and Lifetime Savings Accounts (LSAs). Below is a brief run-down of the issues involved with both proposals.

RSAs

Retirement Savings Accounts essentially would be personal Social Security accounts, allowing people to put money annually into an investment account from which withdrawals could be made tax-free for retirement purposes.

Who has legislation: Both Rep. Nick Smith and Rep. Jim DeMint have bills (H.R. 3055 and H.R. 3177, respectively) that would establish some form of RSA, though in both cases the accounts would be set up through the Treasury Department. Rep. Sam Johnson has announced that he will introduce RSA legislation early this year.

The Bush proposal: President Bush has proposed RSAs that are set up like Roth Individual Retirement Accounts (IRAs), except that the Bush RSAs would be available to everyone (without limitations based on age or income status) and would allow annual contributions of up to \$7,500. Contributions would not be tax-deductible, but earnings would accrue tax-free, and withdrawals would be tax-free.

Issues to consider:

- How much money participants could contribute to an RSA each year
- How such contributions would affect their regular Social Security benefits
- To what extent payroll taxes could be allocated to an RSA
- To what extent payroll tax rates would be affected
- Whether RSA participants would be guaranteed any minimum income
- When and how often participants could make withdrawals
- What the federal cost of the transition to a retirement system with RSAs would be
- What can be done on RSAs in an election year and in the context of the large budget deficit

LSAs

Lifetime Savings Accounts would be set up very similarly to RSAs, allowing people to put money annually into an investment account from which withdrawals could be made tax-free. However, withdrawals from LSAs could be made for any purpose—not just during retirement.

Who has legislation: Although legislation has not been formally introduced, Rep. Sam Johnson has announced that he and Senator Craig Thomas plan to introduce LSA legislation early this year.

The Bush proposal: President Bush has proposed LSAs that are set up like Roth Individual Retirement Accounts (IRAs), except that the Bush LSAs would be available to everyone (without limitations based on age or income status) and would allow annual contributions of up to \$7,500. Contributions would not be tax-deductible, but earnings would accrue tax-free, and withdrawals would be tax-free.

Issues to consider:

- How much money participants could contribute to an LSA each year
- When and how often participants could make withdrawals
- What can be done on LSAs in an election year and in the context of the large budget deficit

Note: Each account is estimated to create a *static* revenue loss of about \$100 million a year. However, the increased investment and economic activity generated by the new savings accounts would likely negate such revenue losses.

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